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(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –
ABSORPTION AND MERGER OF MASTEEL FINANCE
AND
(2) CONTINUING CONNECTED TRANSACTIONS –
FINANCIAL SERVICES AGREEMENT**

(1) ABSORPTION AND MERGER OF MASTEEL FINANCE

On 15 November 2022, the Company (as one of the existing shareholders of Masteel Finance), together with Masteel Finance and its existing shareholders (namely, Magang Group), entered into the Absorption and Merger Agreement with Baowu Finance and its existing shareholders (namely China Baowu, Baosteel and Wuhan Iron & Steel), pursuant to which, all parties agree that Baowu Finance shall absorb and merge Masteel Finance by issuing shares to the existing shareholders of Masteel Finance. Upon completion of the absorption and merger, the Company will become a shareholder of Baowu Finance.

The Absorption and Merger Agreement involves both the disposal of 91% equity interest in Masteel Finance by the Company and the acquisition of 29.68% equity interest in Baowu Finance by the Company. Pursuant to Rule 14.24 of the Listing Rules, if a transaction involves both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal. The relevant transaction will be classified by reference to the larger of the amount of the acquisition and the disposal, and subject to the reporting, disclosure and/or Shareholders' approval requirements applicable to that classification. As the percentage ratios applicable to the disposal of 91% equity interest in Masteel Finance are larger than that of the acquisition, this transaction is classified as an disposal. As one or more applicable percentage ratios of the disposal are more than 5% but all less than 25%, pursuant to Chapter 14 of the Listing Rules, the Absorption and Merger Agreement and the transactions contemplated thereunder constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As of the date of this announcement, Magang Group holds approximately 47.131% of the Company's issued share capital and is the controlling shareholder of the Company. China Baowu is the controlling shareholder of Magang Group, and indirectly holds a total of approximately 51.75% shares of the Company, while Masteel Finance, Baowu Finance, Baosteel and Wuhan Iron & Steel are direct or indirect subsidiaries of China Baowu. As such, all the other parties above are all connected persons of the Company under Chapter 14A of the Listing Rules, and the transactions under the Absorption and Merger Agreement would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Absorption and Merger Agreement exceed 5%, such connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) FINANCIAL SERVICES AGREEMENT

On 15 November 2022, the Company and Baowu Finance entered into the Financial Services Agreement, pursuant to which, Baowu Finance agreed to provide the Group with settlement services, deposit services, credit services and other financial services subject to the terms and conditions provided therein.

As of the date of this announcement, China Baowu directly or indirectly holds a total of approximately 51.75% shares of the Company, and Baowu Finance is the subsidiary of China Baowu. As such, Baowu Finance is connected person of the Company under Chapter 14A of the Listing Rules, and the transactions under the Financial Services Agreement would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services under the Financial Services Agreement on an annual basis are expected to be more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. In addition, as the applicable percentage ratios in respect of the service charge of the settlement services and other financial services under the Financial Services Agreement are more than 0.1% but less than 5%, such transactions constitute exempt continuing connected transactions of the Company under Rules 14A of the Listing Rules in which approval from Independent Shareholders is exempted and are only subject to the reporting and announcement requirements set out in Rule 14A of the Listing Rules.

The Independent Board Committee will advise the Independent Shareholders in relation to the terms of the continuing connected transactions under the Absorption and Merger Agreement and the deposit services and credit services under the Financial Services Agreement, including the proposed annual caps. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, (i) details under the Absorption and Merger Agreement, (ii) details of the deposit services and credit services under the Financial Services Agreement (including the proposed annual caps), (iii) the letter from the Independent Board Committee to the Independent Shareholders, (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and (v) the notice of the extraordinary general meeting will be delivered to the shareholders on or before 6 December 2022.

(1) MAJOR TERMS OF THE ABSORPTION AND MERGER AGREEMENT

Date

15 November 2022

Parties

- (i) Baowu Finance;
- (ii) Masteel Finance;
- (iii) the Company;
- (iv) Magang Group;
- (v) China Baowu;
- (vi) Baosteel; and
- (vii) Wuhan Iron & Steel

Absorption and Merger Proposal

Baowu Finance will merge with Masteel Finance by way of absorption and merger. All the original shareholders of Masteel Finance will become shareholders of Baowu Finance. The shareholding structure and proportion of Baowu Finance after the absorption and merger will be determined according to the appraised value. Baowu Finance, as the surviving company after the merger, shall undertake and inherit all the assets, liabilities, businesses, personnel, contracts and all other rights and obligations of Masteel Finance. The legal person status of Masteel Finance will be cancelled, and Baowu Finance will establish a branch in Maanshan.

Asset Valuation and Pricing

The reference date of valuation for the absorption and merger is 30 June 2022. According to the valuation results, the book net assets of Baowu Finance before valuation is RMB4,843.1457 million, the appraised value is RMB6,065.1007 million, and the appreciation of valuation is RMB1,221.9550 million with the appreciation rate of 25.23%; the book net assets of Masteel Finance before valuation is RMB2,456.4693 million, the appraised value is RMB2,935.0949 million, and the appreciation of valuation is RMB478.6256 million with the appreciation rate of 19.48%.

Way of Share Exchange

The original equity structure of Masteel Finance and Baowu Finance before the absorption and merger is as follows:

Masteel Finance

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	The Company	18.20	91%
2	Magang Group	1.80	9%
	Total	<u>20.00</u>	<u>100%</u>

Baowu Finance

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	China Baowu	13.60	47.90%
2	Baosteel	9.49	33.43%
3	Wuhan Iron & Steel	5.30	18.67%
	Total	28.40	100%

After the absorption and merger, the registered capital of the surviving company will be the sum of Baowu Finance and Masteel Finance, the corresponding share ratio and capital contribution of the original shareholders of both parties in the new Baowu Finance will be redetermined in accordance with the corresponding equity value determined by the net assets appraised value of both parties filed and confirmed by China Baowu. The corresponding calculation formula is as follows:

- (1) The shareholding ratio of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of original shareholders in Baowu Finance \times the appraised value of net assets of Baowu Finance \div (the appraised value of net assets of Baowu Finance + the appraised value of net assets of Masteel Finance)

The capital contribution of original shareholders of Baowu Finance in the surviving company = the shareholding ratio of the shareholders of Baowu Finance in the surviving company \times (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

- (2) The shareholding ratio of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of original shareholders in Masteel Finance \times the appraised value of net assets of Masteel Finance \div (the appraised value of net assets of Baowu Finance + the appraised value of net assets of Masteel Finance)

The capital contribution of original shareholders of Masteel Finance in the surviving company = the shareholding ratio of shareholders of Masteel Finance in the surviving company \times (the registered capital of Baowu Finance before the absorption and merger + the registered capital of Masteel Finance before the absorption and merger)

As calculated based on the appraised value of net assets of both parties as at 30 June 2022, the shareholding structure of Baowu Finance after the completion of absorption and merger is as follows (the final shareholding structure after the absorption and merger shall be determined based on the filed appraised value):

No.	Name of shareholders	Capital contribution (RMB00,000,000)	Percentage of shareholdings
1	China Baowu	15.62	32.28%
2	Baosteel	10.90	22.53%
3	Wuhan Iron & Steel	6.09	12.58%
4	The Company	14.37	29.68%
5	Magang Group	1.42	2.93%
	Total	<u>48.40</u>	<u>100%</u>

Governance Structure of Baowu Finance After the Completion of the Absorption and Merger

Upon completion of the absorption and merger, the board of directors of Baowu Finance will consist of nine directors (including one employee director), and two of them will be appointed by the Company, and the directors appointed by the Company will serve on the special committee of the board of directors of Baowu Finance.

Baowu Finance stipulates in the Articles of Association that shareholders shall receive dividends in proportion to their paid-in capital, and the annual distribution shall not be less than 50% of the audited net profit for the year.

Baowu Finance shall have the technical conditions for the establishment of the Company's capital platform before the absorption and merger date to ensure the activation of the platform to take over the Company's capital when the assets are delivered and business is transferred in the process of deregistration.

For the purpose of orderly commencement of the capital business of the members of Masteel Finance including the Company, it is stipulated in the Absorption and Merger Agreement that the Absorption and Merger Agreement shall be executed subject to the approval of the Financial Services Agreement by the Board and the general meeting of the Company.

Effectiveness of Agreement

The agreement shall be established from the date of signing by legal representatives or authorized representatives of each party, and stamped with official seals, and shall be effective upon all the following conditions are satisfied:

- (1) Each party has performed the necessary internal decision procedures to obtain all approvals or authorizations in respect of the absorption and merger;
- (2) The absorption and merger has obtained the CBIRC's approval;
- (3) The Financial Services Agreement between the Company and Baowu Finance, which is required to be signed after the absorption and merger of Masteel Finance, has been approved by the Board and the shareholders' meeting of the Company and became effective;
- (4) The Company has performed all the necessary approval procedures under the applicable Listing Rules in respect of the Absorption and Merger Agreement, including obtaining the approval of the Board and the shareholders' meeting of the Company to take effect.

Assumptions Regarding the Adoption of Income Approach for the Valuation Report of Masteel Finance

Given that the valuation report of Masteel Finance involves the use of income approach, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Company has fully complied with the requirements of Rule 14.62 of the Listing Rules.

The valuation of the entire shareholders' equity of Masteel Finance has been prepared on the following principal bases and assumptions:

(I) General assumptions

1. Transaction assumption

It is assumed that all assets to be appraised are in the process of transaction and the assets appraiser will make estimations in an analogical market according to the transaction conditions of the assets to be appraised.

2. *Public market assumption*

A public market is a competitive market with fully developed and sound market conditions and willing buyers and sellers, in which the buyers and the sellers have equal standing and are provided with the opportunity and time to obtain sufficient market information and conduct transaction behaviours in a willing and rational state without compulsion or restrictions.

3. *Continuous use assumption*

The assumption assumes that the appraised assets are in use, including the assets in use and reserve assets, and that the assets in use will continue to be in use according to relevant data and information. Under the conditions of continuous use assumption, the change of use or the best utilisation conditions of the assets are not taken into consideration.

4. *Going concern assumption*

It is assumed that the entity evaluated, whose operators assume responsibilities and are capable of fulfilling their responsibilities, will not cease operation for whatever reason in the foreseeable future but instead will be operated legally and continuously based on the current assets and resource conditions.

(II) *Special assumptions for valuation*

1. It is assumed that the business operation of Masteel Finance is currently and shall continue to be on an ongoing basis; the existing business scope shall have no material changes, and the existing business development and operation shall have no material changes due to changes, such as changes in future industrial policies.
2. Masteel Finance invests a certain amount of capital expenditure and maintenance fee each year in order to guarantee the proper use of assets; this valuation is conducted on the basic assumption that the company shall be able to operate on an ongoing basis and ensure its profitability through continuous self-replenishment and update.
3. The accounting policies adopted during the period under forecast are expected to be consistent with those adopted currently by Masteel Finance and in the preparation of this report in all material aspects.
4. It is assumed that there shall be no material changes in the current industrial policies of financial industry and the existing legal environment.

5. It is assumed that Masteel Finance shall maintain its current level of financial capital and the corresponding scale of operations.
6. The scope of valuation is only based on the declaration form for valuation provided by Masteel Finance, without taking into account the possible contingent assets and contingent liabilities out of the list provided by the appraised entity.
7. The income generated from the business of the appraised company mainly comes from its current operating business income and investment income, but does not consider new business that may occur.
8. There shall be no material changes in reserve requirement ratio, deposit and loan rates, exchange rates, tax bases, tax rates and policy charges.
9. The business scale of the appraised entity is limited to the existing capital scale without taking into account the impact of future possible restructuring on its business scale development.
10. The future business income and loans and advances to customers shall be basically recovered as planned without any substantial bad debts.
11. There shall be no serious unexpected incidents in respect of the major assets of Masteel Finance during their lifecycles.
12. Masteel Finance shall be able to obtain sufficient funds in a timely manner when financial assistance is needed during its future operation.
13. Masteel Finance shall not encounter a large-scale staffing change that would affect the company's normal production and operating activities during its future operation.
14. Each of the regulatory indicators of Masteel Finance is in compliance with the requirements of the regulatory authorities in the future.
15. The valuation conclusions of this valuation report are established based on the above assumptions as at the reference date of valuation. When there is any significant change in the above assumptions, the signatory asset appraisers and the appraisal agency shall not assume the responsibility for different valuation conclusions resulting from the change of assumptions.

The Company has appointed E&Y Hua Ming to review the arithmetical calculation and compilation of the discounted future estimated cash flows upon which the valuation report of the Masteel Finance was based.

The Directors confirm that the valuation of the Masteel Finance, which constitutes a profit forecast under the Rule 14.61 of the Listing Rules, has been made after due and careful enquiry.

Letters from E&Y Hua Ming and the Board are set out respectively in Appendix I and Appendix II to this announcement.

Experts and Consents

The qualifications of the experts who have given their statements in this announcement are as follows:

Name	Qualification
E&Y Hua Ming China Assets Appraisal Co., Ltd.	Certified Public Accountants, the PRC Independent professional valuer

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquiries, each of the above experts is a third party independent of the Group and its connected person(s).

To the best of the Directors' knowledge, information and belief, as at the date of this announcement, none of the above experts has any shareholding, directly or indirectly, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

Each of the above experts had given and has not withdrawn its written consent to the publication of this announcement with the inclusion of its name, statements and all references to its name (including its qualification) in the form and context in which they are included.

Information on Masteel Finance

Masteel Finance is a non-banking financial institution established under the PRC laws in October 2011 with the approval of the CBRC and is subject to the supervision of the CBRC. It is mainly engaged in providing financial services including but not limited to deposit services, loan and entrusted credit services, discounting services and settlement services to Magang Group and its subsidiaries. Its ultimate beneficial owner is China Baowu.

The following table sets out the main audited financial data of Masteel Finance for the two financial years ended 31 December 2020 and 2021:

	<i>RMB '0000</i>	
	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	39,371.50	40,225.48
Net profit before tax	36,814.06	39,098.40
Net profit after tax	27,710.56	29,145.60

Information on Baowu Finance

Baowu Finance is a non-banking financial institution established under the PRC laws in October 1992 with the approval of the CBRC and is subject to the supervision of the CBRC. It is mainly engaged in providing financial services to its member units. The ultimate beneficial owner is China Baowu.

The following table sets out the main audited financial data of Baowu Finance for the two financial years ended 31 December 2020 and 2021:

	<i>RMB '0000</i>	
	For the year ended 31 December 2020	For the year ended 31 December 2021
Total revenue	36,354.18	63,147.97
Net profit before tax	32,067.74	42,924.48
Net profit after tax	24,153.06	32,685.92

Reasons for and Benefits of the Agreement

As at the date of issuance of this announcement, the operation of both Masteel Finance and Baowu Finance is normal, and the absorption and merger is in compliance with the requirements of the regulatory policies of the CBIRC. Upon the absorption and merger, Masteel Finance will be cancelled and the Company will become a shareholder of Baowu Finance, with its shareholding ratio of 29.68%. It is considered that the merger of the two finance companies will be more favorable for them to obtain professional management and operation on a higher platform.

The Directors (including the independent non-executive Directors) believe that the terms of the Absorption and Merger Agreement are on normal commercial terms, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

Potential Financial Impact of the Absorption and Merger Agreement

Upon completion, Masteel Finance will cease to be a subsidiary of the Company. The assets, liabilities and financial results of Baowu Finance will not be consolidated into the financial statements of the Company. Upon completion of the transaction, approximately 29.68% equity interest in Baowu Finance held by the Group will be recognized as investment in an associated company and at the fair value of Baowu Finance's identifiable net assets and liabilities attributable to the Company.

With respect to the disposal of 91% equity interests of Masteel Finance, the Company preliminarily expects to record a gain of approximately RMB400 million, being the difference between the appraised value of the 91% equity interests in Masteel Finance and its book value as at 30 June 2022, but the exact amount is subject to audit and consideration of, among others, consolidation elimination adjustments, taxation and profit and loss during the transitional period, etc.. The Company intends to use such gain to replenish general working capital.

Information on the Company and Other Parties of the Absorption and Merger Agreement

The Company is one of the largest iron and steel producers and merchandisers in the PRC and is principally engaged in the manufacture and sale of iron and steel products.

Magang Group is a state-owned holding enterprise with limited liability and the controlling shareholder of the Company. It is mainly engaged in mining and sorting of mineral products, construction, manufacturing of construction materials, trading, storage and property management, as well as agriculture and forestry. The ultimate beneficial owner is China Baowu.

China Baowu is a state-owned capital investment company controlled and held by the State-owned Assets Supervision and Administration Commission of the State Council. It is mainly engaged in operating state-owned assets within the scope authorized by the State Council, as well as carrying out relevant state-owned capital investment and operation.

Baosteel specializes in the production of high-tech, high-value-added steel products. In the fields of steel usage in automobile, shipbuilding, oil, gas mining and transportation, home appliances, electrical equipment, boiler and pressure vessel, food, beverage and other packaging, metal products and high-grade construction and others, Baosteel has become the main steel supplier in Chinese market and at the same time exports products to more than 40 countries and regions in Japan, South Korea, Europe and the United States. The ultimate beneficial owner is China Baowu.

Wuhan Iron & Steel is principally engaged in manufacturing of metallurgical products and by-products and steel extension products, and technological development of metallurgical products; the import and export of goods and technology, and the import and export of agency services (excluding goods or technologies that are prohibited or restricted by the state); wholesale of steel and by-products and coal; sales of metal ores and non-metal ores, alloys, steel scrap, metal materials, electrical engineering and materials, wires and cables, building materials, refractory materials, electromechanical equipment, instrumentation and chemical products (excluding inflammable, explosive and hazardous goods); supply of electricity, heat and gas; warehousing, railway cargo transportation and road cargo transportation (Where licensed business items are involved, operation is subject to permission by relevant authorities); repair of general equipment (excluding special equipment); professional repair of equipment specifically for use in metallurgy; electrical equipment repair; instrumentation repair; measurement service and verification and calibration service; the enterprise's own carbon emission quota trading (limited for designated trading institutions or platforms); environmental protection monitoring service (only limited for operation of licensed branches); environmental technology consulting service (For items subject to approval in accordance with the laws, operating activities can only be conducted upon approval by the relevant authorities). The ultimate beneficial owner is China Baowu.

For information about Masteel Finance and Baowu Finance, please refer to the previous disclosures in the announcement.

Listing Rules Implication

The Absorption and Merger Agreement involves both the disposal of 91% equity interest in Masteel Finance by the Company and the acquisition of 29.68% equity interest in Baowu Finance by the Company. Pursuant to Rule 14.24 of the Listing Rules, if a transaction involves both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal. The relevant transaction will be classified by reference to the larger of the amount of the acquisition and the disposal, and subject to the reporting, disclosure and/or Shareholders' approval requirements applicable to that classification. As the percentage ratios applicable to the disposal of 91% equity interest in Masteel Finance are larger than that of the acquisition, this transaction is classified as an

disposal. As one or more applicable percentage ratios of the disposal are more than 5% but all less than 25%, pursuant to Chapter 14 of the Listing Rules, the Absorption and Merger Agreement and the transactions contemplated thereunder constitute discloseable transactions of the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As of the date of this announcement, Magang Group holds approximately 47.131% of the Company's issued share capital and is the controlling shareholder of the Company. China Baowu is the controlling shareholder of Magang Group, and indirectly holds a total of approximately 51.75% shares of the Company, while Masteel Finance, Baowu Finance, Baosteel and Wuhan Iron & Steel are direct or indirect subsidiaries of China Baowu. As such, all the other parties above are all connected persons of the Company under Chapter 14A of the Listing Rules, and the transactions under the Absorption and Merger Agreement would constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios of the Absorption and Merger Agreement exceed 5%, such connected transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) MAJOR TERMS OF THE FINANCIAL SERVICES AGREEMENT

Date

15 November 2022

Parties

- (i) Baowu Finance; and
- (ii) the Company

In the agreement, Baowu Finance refers to Baowu Finance and/or its branches, and the Company refers to the Company and/or its subsidiaries.

Duration

The Financial Services Agreement shall be for a term commencing from the agreement effective date to 31 December 2024.

Deposit Services

The Group opens settlement accounts with Baowu Finance, and deposits funds into the saving accounts opened at Baowu Finance under the principles of independent choice and free access to these accounts.

Baowu Finance provides deposit services to the Group at the deposit interest rate determined in accordance with that of the same type and under the same terms promulgated by the People's Bank of China, in principle, not lower than the deposit interest rate of the same type and under the same terms of the independent major commercial banks in the PRC.

During the term of the agreement, the maximum daily deposit balance of the Group with Baowu Finance shall in principle not exceed RMB10 billion, the total interest fee paid by Baowu Finance to the Group for deposit services shall not exceed the maximum of RMB190 million per year. The above estimation of the maximum deposit balance has been determined with reference to the maximum deposit balance of the Group in Masteel Finance amounting to RMB9.687 billion for the period from 2020 to August 2022, taking into account the sales revenue set in the Group's strategic sales plan for the period from 2023 to 2024.

Credit Services

Baowu Finance will, within the scope permitted by national laws, regulations and policies, in accordance with the requirements of the CBIRC and in combination with its own operating principles and credit policies, support the Group's capital needs in business development, and provide comprehensive credit services for the Group. The Group may use the comprehensive credit extension provided by Baowu Finance to handle loans, bill acceptance, bill discounting and other types of financial services.

Baowu Finance provides preferential credit interest rates and rates for credit businesses such as loans, bill acceptance, bill discounting, etc. to the Group, which shall be in principle not higher than the credit interest rates and rates of the same type, under the same terms and at the same level obtained by the Group from independent major commercial banks in the PRC.

During the term of the agreement, the maximum comprehensive credit line provided by Baowu Finance to the Group shall not exceed RMB10 billion. The above estimation of the maximum comprehensive credit line has been determined with reference to the maximum total credit line obtained by the Group from Masteel Finance amounting to RMB9.05 billion and the maximum credit business balance amounting to RMB5.494 billion for the period from 2020 to August 2022, taking into account the Group's strategic planning for the period from 2023 to 2024.

Settlement Services and Other Financial Services

The Group opens settlement accounts with Baowu Finance. Baowu Finance provides collection services and payment services, as well as other ancillary services related to settlement business, according to the Group's instructions.

The fees charged by Baowu Finance for providing various settlement services to the Group shall be, in principle, not higher than those of the same type and under the same terms charged by independent major commercial banks in the PRC.

Baowu Finance may provide other financial services to the Group within the scope of its business, and the parties shall negotiate and sign a separate agreement before the provision of other financial services by Baowu Finance to the Group. Baowu Finance shall follow the principles of fairness and reasonableness to provide other financial services to the Group, and charge the relevant fees not higher than the fair market prices obtained by the Group from independent major commercial banks in the PRC or the standards stipulated by the State.

During the term of the agreement, the maximum service fee paid by the Group to Baowu Finance for financial services shall not exceed RMB210 million. The above estimation of the maximum service fee has been determined with reference to the maximum credit business balance of the Group in Masteel Finance amounting to RMB5.494 billion for the period from 2020 to August 2022 and an estimated upward fluctuation of 40% to 50% during the period from 2023 to 2024, half of which will be internal loans (the estimated composite interest rate being 3.55% by reference to the loan prime rate for 1-year loans published by the People's Bank of China) and the other half will be internal discounts (the estimated composite interest rate being 2.30% by reference to the discounted price of bills available from Masteel Finance), approximately RMB206 million in aggregate.

Effectiveness of Agreement

The agreement shall become effective after each party performs their own necessary internal decision-making procedures, and the approval of the Company's general meeting is obtained in accordance with the "Shanghai Stock Exchange Shares Listing Rules" and the Listing Rules.

Reasons for and Benefits of Financial Services Agreement

The Company may continue to optimize its financial management, improve the efficiency of capital utilization, reduce financing costs, and obtain professional management and operation on a higher platform upon the effectiveness of Financial Services Agreement.

The Directors (including the independent non-executive Directors) believe that the terms of the Financial Services Agreement are on normal commercial terms, fair and reasonable, and in the interest of the Company and its shareholders as a whole.

Information on the Company and Baowu Finance

For information about the Company and Baowu Finance, please refer to the previous disclosures in the announcement.

Internal Control of the Financial Services Agreement

To ensure effective execution and implementation of the pricing of the transactions under the agreements, the Company has established “Internal Control Management Measures of Related Transactions” to regulate the pricing management of relevant related transactions.

The connected transaction management committee of the Company, which directly reports to the Board, is responsible for the on-going monitoring of all the continuing connected transactions of the Company, which include the continuing connected transactions contemplated under the Financial Services Agreement. The responsibilities of the connected transaction management committee include, among other things, approving and monitoring of continuing connected transactions, gathering information for disclosure of continuing connected transactions pursuant to the Listing Rules, and monitoring of pricing procedures for continuing connected transactions to ensure that prices are determined on normal commercial terms. For each relevant functional department of the continuing connected transaction agreements or relevant companies entering transactions shall provide actual trading situation quarterly to the operation and accounting department of the Company. The operation and accounting department of the Company will report on quarterly basis to the connected transaction management committee regarding the actual amount of the continuing connected transactions conducted during the quarter and the estimated amount in the following quarter so as to facilitate the connected transaction management committee to (i) monitor the actual amount of continuing connected transactions carried out; and (ii) assess whether the annual cap of any continuing connected transactions will be exceeded. The continuing connected transaction management committee will then report to the Board on quarterly basis.

The operation and accounting department will be responsible for the pricing management and will guide various departments and units to establish the procedures and mechanism of professional price management, so as to ensure that the pricing standard is fair and reasonable, and conform with the market principle. Market prices will be obtained through, among other things, open tenders/quotations from independent third party suppliers and service providers, recent transaction prices of the Group with independent third parties, pricing information obtained through subscription service and researches on industry websites. The market price information will be circulated by the department to other departments and companies of the Group to enable them to determine the prices for the continuing connected transactions.

Listing Rules Implications

As of the date of this announcement, China Baowu directly or indirectly holds a total of approximately 51.75% shares of the Company, and Baowu Finance is the subsidiary of China Baowu. As such, Baowu Finance is connected person of the Company under Chapter 14A of the Listing Rules, and the transactions under the Financial Services Agreement would constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the proposed annual caps for the deposit services and credit services under the Financial Services Agreement on an annual basis are expected to be more than 5%, such continuing connected transactions and proposed annual caps are subject to requirements including reporting, announcement, annual review and Independent Shareholders' approval under Chapter 14A of the Listing Rules. In addition, as the applicable percentage ratios in respect of the service charge of the settlement services and other financial services under the Financial Services Agreement are more than 0.1% but less than 5%, such transactions constitute exempt continuing connected transactions of the Company under Rules 14A of the Listing Rules in which approval from Independent Shareholders is exempted and are only subject to the reporting and announcement requirements set out in Rule 14A of the Listing Rules.

APPROVAL BY THE BOARD

In the 67th meeting of the ninth session of the Board on 15 November 2022, the Board approved the Absorption and Merger Agreement and the Financial Services Agreement. The Directors attending the Board meeting regarding the Absorption and Merger Agreement and the Financial Services Agreement consider that the Absorption and Merger Agreement, the Financial Services Agreement and the proposed annual caps in respect thereof have been negotiated on an arm's length basis and on normal commercial terms and the terms thereof and the proposed annual caps under the Financial Services Agreement are fair and reasonable and in the interests of the Company and the shareholders as a whole and the agreements are entered into during the ordinary and usual course of business of the Group.

Among the Directors attending the Board meeting, Mr. Ding Yi was considered to have material interests on the Absorption and Merger Agreement and the Financial Services Agreement by virtue of being employed by the Parent Company or other reasons, and thus abstained from voting on the Board resolutions in respect of the relevant agreements and the proposed annual caps. Save as disclosed above, none of the Directors attended the Board meeting has a material interest in the agreements.

GENERAL

The Independent Board Committee will advise the Independent Shareholders in relation to the terms of the continuing connected transactions under the Absorption and Merger Agreement and the deposit services and credit services under the Financial Services Agreement, including the proposed annual caps. Halcyon Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among others, (i) details under the Absorption and Merger Agreement, (ii) details of the deposit services and credit services under the Financial Services Agreement (including the proposed annual caps), (iii) the letter from the Independent Board Committee to the Independent Shareholders, (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and (v) the notice of the extraordinary general meeting will be delivered to the shareholders on or before 6 December 2022.

DEFINITIONS

In this announcement, the following expressions have the following meaning:

“Absorption and Merger Agreement”	the absorption and merger agreement entered into between the Company (as one of the existing shareholders of Masteel Finance), together with Masteel Finance and its existing shareholder (namely Magang Group) and Baowu Finance and its existing shareholders (namely China Baowu, Baosteel and Wuhan Iron & Steel) on 15 November 2022 in relation to Baowu Finance and Masteel Finance
“Baosteel”	Baoshan Iron & Steel Co., Ltd., a limited company incorporated in China
“Baowu Finance”	Baowu Group Finance Co., Ltd., a limited company incorporated in China
“Board”	the board of the Directors of the Company
“CBIRC”	the China Banking and Insurance Regulatory Commission
“China Baowu”	China Baowu Steel Group Corporation Limited, a limited company incorporated in the PRC and a pilot enterprise of state-owned capital investment company which are 90% owned by the State-owned Assets Supervision and Administration Commission of the State Council
“Company”	Maanshan Iron & Steel Company Limited, a joint stock limited company incorporated in the PRC, which shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“E&Y Hua Ming”	Ernst & Young Hua Ming LLP (Special General Partnership)
“Financial Services Agreement”	the financial services agreement entered into between Baowu Finance and the Company on 15 November 2022
“Group”	the Company and its subsidiaries

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Financial Adviser” or “Halcyon Capital”	Halcyon Capital Limited, a licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO. Halcyon Capital Limited, being the independent financial adviser, advises the Independent Board Committee and the Independent Shareholders in relation to the Absorption and Merger Agreement, the Financial Services Agreement, the transactions contemplated thereunder, and the respective proposed annual caps of each year
“Independent Shareholders”	the shareholders of the Company (other than China Baowu, Magang Group and their associates)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magang Group”	Magang (Group) Holding Company Limited, a state-owned holding enterprise with limited liability, formerly known as Maanshan Magang Holding Company, and was approved by the government to restructure into Magang (Group) Holding Company Limited in September 1998
“Masteel Finance”	Masteel Group Finance Co., Ltd., a limited company incorporated in China
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Wuhan Iron & Steel”	Wuhan Iron & Steel Company Limited, a limited company incorporated in China

“%”

percentage

By Order of the Board
Maanshan Iron & Steel Company Limited
He Hongyun
Secretary to the Board

15 November 2022

Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include: Executive directors Ding Yi and Ren Tianbao; Independent non-executive directors Zhang Chunxia, Zhu Shaofang and Wang Xianzhu.

APPENDIX I LETTER FROM REPORTING ACCOUNTANTS ON PROFIT FORECAST

The following is the text of a report from the Company's reporting accountants, E&Y Hua Ming, for inclusion in this announcement.

REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF MASTEEL GROUP FINANCE CO., LTD.

15 November 2022

The Board of Directors

Maanshan Iron & Steel Company Limited

No. 8, Jiuhua West Road, Ma'anshan, Anhui, The People's Republic of China

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 26 October 2022 prepared by China Assets Appraisal Co., Ltd. in respect of the appraisal of the fair value of Masteel Group Finance Co., Ltd. ("**Masteel Finance**") as at 30 June 2022 is based. The valuation is set out in the announcement of Maanshan Iron & Steel Company Limited (the "**Company**") dated 15 November 2022 (the "**Announcement**") in connection with the absorption and merger of Masteel Finance. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "Valuation Assumptions" of the valuation report of Masteel Finance.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Chinese Institute of Certified Public Accountants ("**CICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Quality Control Standards No. 5101 Quality Control for Accounting Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of Masteel Finance. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young Hua Ming LLP
Certified Public Accountants
Beijing, the PRC

15 November 2022

The Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place, Central, Hong Kong

Dear Sir or Madam,

**Discloseable and connected transaction –
absorption and merger of Masteel Finance**

We refer to the announcement of Maanshan Iron & Steel Company Limited (the “**Company**”) dated 15 November 2022 concerning the captioned transaction (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

Reference is made to the asset valuation report dated 26 October 2022 prepared by China Assets Appraisal Co., Ltd. in respect of the valuation of Masteel Finance, which constitutes a profit forecast under Rule 14.61 of the Listing Rules.

We have discussed with the independent valuer about different aspects including the bases and assumptions based upon which the valuation has been prepared, and reviewed the valuation for which the independent valuer is responsible. We have also considered the letter from Ernst & Young Hua Ming regarding whether the discounted future cash flows of Masteel Finance, so far as the arithmetical calculations are concerned, have been properly complied, in all material respects, in accordance with their respective bases and assumptions.

On the basis of the foregoing, we are of the opinion that the valuation of Masteel Finance prepared by China Assets Appraisal Co., Ltd. has been made after due and careful enquiries.

Yours faithfully,
By order of the Board
Maanshan Iron & Steel Company Limited
He Hongyun
Secretary to the Board